AUDIT-PROOFING DISASTER/CASUALTY LOSSES

❑	Include the loss on the original tax return. When filing the tax return for the year of the loss, try to include the loss, or an estimate, on the originally filed return. Filing an amended tax return with a large refund due to the loss could result in an audit. If the taxpayer cannot determine the exact amount of the loss in time to include it in the tax return, file the return with an estimate of the amount of the loss, insurance proceeds, and deductible loss. When all the insurance proceeds are received and the replacement property is acquired, file an amended return to account for the exact gain or loss on the casualty/disaster.
❑	If the taxpayer will have a gain from the casualty/disaster, do not file an extension without paying at least as much, if not more, of the expected tax liability. California has an automatic extension of time to file tax returns. If the taxpayer takes advantage of the automatic extension, he or she will have late-payment penalties and interest due when the return is filed. If the return is filed and the gain is reported on the extended tax return, the taxpayer will be assessed interest and late-payment penalties. If the taxpayer files the return and underestimates the amount of tax due on the gain for the extension and later files an amended return paying the full amount of tax on the recognized gain, there will be interest due, but no late-payment penalties.
❑	Have the property appraised immediately after the event. If local appraisers are busy, use a real estate broker to do a curbside appraisal for your estimate. Later, have a licensed appraiser prepare an appraisal. If this amount differs from the broker's values, amend the tax return to adjust the difference. Because the loss is based on the decline in FMV, the taxpayer must have an appraisal done to show the FMV immediately before and immediately after the disaster. An appraisal done at the time of the audit (years after the event) will hurt your taxpayer's case during the audit.
❑	The taxpayer does not need to reduce the cost of real property by the land value when the property was the taxpayer's principal residence. (Treas. Regs. §1.165-2(b)(2)(ii))
❑	Have the taxpayer take photographs or videos of the damage. Keep a copy in their file of tax records.
❑	Gather photos taken prior to the casualty to establish the pre-disaster condition of the property.
❑	Get testimony of neighbors as to the condition of the property prior to and immediately after the disaster.
❑	Keep copies of newspaper clippings showing the extent of the disaster.
❑	Make a complete, written inventory of items damaged or destroyed. Include, if available, brand names, year of purchase, any available receipts of purchase, and estimated values from thrift shops, second-hand stores, or catalogs.
❑	File an insurance claim. Taxpayers should still file a claim with their homeowner's insurance company even if they do not have the appropriate insurance (e.g., earthquake insurance). Keep the denial of the claim with the tax files. This document will be required during the audit.
❑	If the taxpayer has received an SBA loan, include the following information on SBA's policy. According to the SBA Standard Operating Procedures, loan proceeds must be used to "repair," "replace," and "repaint," not for improvement of the home. Although not conclusive, a copy of the SBA report can be helpful in determining the loss.

Website
To download a copy of this checklist, go to:
www.caltax.com/spidellweb/public/editorial/disastercasualty.pdf